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SUBJECT: SCENESETTER FOR THE VISIT OF SECRETARY OF ENERGY
SAMUEL BODMAN TO TURKMENISTAN, NOVEMBER 15-16, 2007

11. Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: Your visit to Turkmenistan, the first by a cabinet-level official since 2002, will add value to the newly reinvigorated Turkmenistan International Oil and Gas Exhibition (TIOGE). This visit will advance our bilateral dialogue on energy issues, while reinforce the progress made by the United States since December 2006 in "turning a new page" in its overall relationship with Turkmenistan. Although the new president, Gurbanguly Berdimuhamedov, is making significant changes in some sectors, it is important to realize the country is at the very beginning of a new era. The wreck of a country left behind by the now-deceased President-for-Life Niyazov, combined with 70 years of colonial Soviet rule, compounded by nomadic/tribal customs that lacked a modern nation-state concept, create the need for a new model. Turkmenistan was never North Korea, but it is not yet Denmark. Rather, the current state offers a rare opportunity to develop a new model; a model molded by, and representative of, the proud people of Turkmenistan, with patient but consistent nudges by the international community toward international standards and practices.

13. (SBU) SUMMARY CONTINUED: Turkmenistan has world-class natural gas reserves, but Russia's near monopoly of its energy exports has left Turkmenistan receiving less than the world price and overly beholden to Russia. Berdimuhamedov seems to support the U.S. position that pipeline diversification strengthens Turkmenistan's sovereignty and states publically he has not closed the door to a Trans-Caspian pipeline. However, he continues to maintain that such a pipeline -- or even a less politically sensitive connector pipeline between already-existing oil platforms in Turkmenistan's Caspian basin and pipelines in Azerbaijan's Shah-Deniz or ACG oilfields -- is impossible without delimitation of Turkmenistan's and Azerbaijan's common border in the Caspian Sea. While Baku and Ashgabat's return to the negotiating table is promising, ongoing niggling not only

over boundary lines in the disputed territory but also over possible compensation leaves the situation vulnerable to heavy pressure by Russian and Iranian governments eager to play a spoiler role. END SUMMARY.

ENERGY RESOURCES

14. (SBU) Turkmenistan has world-class natural gas reserves but Russia's near monopoly of its energy exports has left Turkmenistan receiving much less than the world price and overly beholden to Russia. Pipeline diversification, including both a pipeline to China proposed for 2009 and the possibility of resurrecting plans for Trans-Caspian and Trans-Afghanistan pipelines that would avoid the Russian routes, and construction of high-power electricity lines to transport excess energy to Turkmenistan's neighbors, including Afghanistan, would not only enhance Turkmenistan's economic and political sovereignty, but also help fuel new levels of prosperity throughout the region. Berdimuhamedov has told U.S. interlocutors he recognizes the need for more options and has taken the first steps to this end, but he also took the first steps needed to increase the volume of gas exports to Russia -- agreeing in principle to refurbish and enlarge a Soviet-era Caspian littoral pipeline -- during the May tripartite summit in Turkmenbashi. He will require encouragement and assistance from the international community if he is to maintain a course of diversification in the face of almost certain Russian efforts to keep Turkmenistan from weaning itself away from Russia.

15. (SBU) In promoting a pipeline that would allow westward gas exports to Azerbaijan, the United States and other interested countries face a number of obstacles:

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-- A quirky export policy focused on gas sales at the border and a national bias against allowing foreign -- particularly western -- companies a foothold in Turkmenistan's on-shore gas fields.

-- Limited human capacity and understanding of world energy practices among officials, including the president. In the president, this lack of understanding has been manifested in his seemingly naive and unrealistic expectations of what is required to build new pipelines, while the limited knowledge of lower-level officials has led to a lack of confidence and decisiveness in dealing with new players and unwillingness to consider new policy approaches.

-- An aging and inefficient production infrastructure that draws into question Turkmenistan's ability to meet delivery commitments without a massive infusion of new investment, technology and expertise.

-- Russia's opposition to what it perceives as growing U.S. influence in an area that it continues to consider its own special sphere of influence, as well as Iranian concern that a Trans-Caspian pipeline would strengthen U.S. influence to its north while undermining Iran's efforts to work out its own lucrative gas deal with Turkey.

-- Turkmenistan's insistence that it cannot even consider a westward-flowing pipeline until it has successfully delimited its common border with Azerbaijan.

16. (SBU) Recognizing the limited window of opportunity for a pipeline, the U.S. government has been encouraging Turkmenistan's hydrocarbons officials to reexamine their thinking, including through a very successful U.S.-funded visit by five upper-level hydrocarbon officials to Washington and Houston September 22-29. Through the U.S. Trade and Development Agency, the United States is working to provide officials with the knowledge and information they need to make informed decisions, and the U.S. government is encouraging the Azeri and Turkmen governments to engage in

delimitation negotiations. These efforts are bearing fruit: there have been indications that hydrocarbon officials for the first time are looking more realistically at their options, reconsidering some key policies, and even engaging seriously in delimitation talks. But recent indications that Turkmenistan wants to extend the scope of the delimitation talks to include compensation it claims it is owed from Azerbaijan's and BP's ongoing extraction of hydrocarbons in the disputed territory offers a new wrinkle that could draw out the talks even longer and leave the talks vulnerable to Russian and Iranian manipulation.

TURKMENISTAN POST-NIYAZOV

17. (SBU) A hydrocarbon-rich state that shares borders with Afghanistan and Iran, Turkmenistan is in the midst of an historic political transition. The unexpected death of President Niyazov on December 21, 2006, ended the authoritarian, one-man dictatorship that by the end of his life had made Turkmenistan's government among the most repressive in the world. The peaceful transfer of power following Niyazov's death confounded many who had predicted instability because the former president had no succession plan. President Berdimuhamedov quickly assumed power following Niyazov's death with the assistance of the "power ministries" -- including the Ministries of National Security and Defense, and the Presidential Guard. His position was subsequently confirmed through a public election in which the population eagerly participated, even though it did not meet international standards.

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NIYAZOV'S LEGACY

18. (SBU) Berdimuhamedov inherited a country that former President Niyazov had come close to running into the ground. Niyazov siphoned off much of Turkmenistan's hydrocarbon proceeds into non-transparent slush funds used, in part, to finance his massive construction program in Ashgabat at the expense of the country's education and health-care systems. Politically, his increasing paranoia -- particularly after the 2002 armed attack on his motorcade -- led to high-speed revolving-door personnel changes at the provincial and national level, and an obsessive inclination to micro-manage the details of government. Criticizing or questioning Niyazov's decisions was treated as disloyalty, and could be grounds for removal from jobs, if not worse. Niyazov's "neutral" foreign policy led to Turkmenistan's political and economic isolation from the rest of the world. His policies calling for mandatory increases in cotton and wheat production led to destructive agricultural and water-use policies that left some of Turkmenistan's arable land salty and played-out.

EDUCATION -- "DIMMER PEOPLE EASIER TO RULE"

19. (SBU) Niyazov's attacks on the educational system grew increasingly destructive in his later years. The Soviet-era educational system was broadly turned into a system designed to isolate students from the outside world and to mold them into loyal Turkmen-speaking presidential thralls. President Niyazov famously defended this policy when, in 2004, he told a fellow Central Asian president, "Dimmer people are easier to rule." Niyazov's destruction of his country's education system included cutting the Soviet standard of ten years of compulsory education to nine, firing large numbers of teachers, and introducing his own works as core curriculum at the expense of the traditional building blocks of a basic education. He slashed higher education to two years of study and discouraged foreign study by refusing to recognize foreign academic degrees. Taken together, these steps created a "lost generation" of under-educated youth ill-equipped to help Turkmenistan take its place on the world stage.

RULE OF LAW -- A LOW BAR

¶10. (SBU) Niyazov seriously harmed Turkmenistan's political system. His capricious authoritarianism left a legacy of corrupt officials lacking initiative, accountability, and -- in many cases -- the expertise needed to do their jobs. Young officials who came of age after Niyazov's destructive changes to the education system are particularly deficient in skills and broader world vision needed to facilitate Turkmenistan's entry into the international community. Many laws lack transparency and provision for oversight and recourse. The population's lack of understanding of the meaning of rule of law has left the bar low in terms of citizens' expectations of their government.

BERDIMUHAMEDOV BEGINS TO REBUILD THE SYSTEM

¶11. (SBU) Berdimuhamedov still pays nominal lip service to maintaining his predecessor's policies, but he has started reversing many of the most destructive, especially in the areas of education, health, and social welfare. He has restored -- and in many cases -- increased old-age pensions that Niyazov had largely eliminated. The president is embarking on a course of hospital-building, with the main focus on improving medical facilities in Turkmenistan's five provinces. To this end, he has already authorized construction of five provincial mother-and-children

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(maternity) hospitals. He has also publicly committed to improve rural infrastructure and to ensure that every village has communications, electricity and running water.

¶12. (SBU) In education, Berdimuhamedov is reversing many of the policies Niyazov ordered him to implement while he served as Deputy Chairman of the Cabinet of Ministers for Education and Health. Since his inauguration, Berdimuhamedov has ordered a return to the compulsory standard of ten years' education, a return of universities to five years of classroom study, and a new emphasis on exchange programs and the hard sciences. On July 13, he called for recognition of foreign academic degrees, a major step which would allow exchange students to receive credit for their overseas study. The goal is to repair Turkmenistan's broken education system as quickly as possible and to give the country the educated workforce that it needs to compete commercially. These efforts, however, are hampered by old-thinking bureaucrats, especially in the Ministry of Education and Ministry of National security, who sometimes block or otherwise impede foreign assistance programs. This may perhaps be a legacy of the culture of xenophobia Niyazov had encouraged.

ELIMINATING THE CULT OF PERSONALITY

¶13. (SBU) Berdimuhamedov has incrementally started dismantling Niyazov's cult of personality. Huge posters of the deceased president are beginning to be removed from public buildings. References to Niyazov's "literary" works, especially the Ruhnama, are less frequent and probably will fade away over time. The new president has banned the huge stadium gatherings in his honor and requirement for students and government workers to line the streets, often for hours, along presidential motorcade routes. That said, in some places, Niyazov's picture has been replaced by Berdimuhamedov's, and the new president's quotations have replaced Ruhnama quotations on newspaper mastheads. However, these are practices common in Central Asia. One hopeful trend is that Berdimuhamedov appears to be signaling that the country should draw its inspiration from its history rather from the cult of the leader. Posters of Turkmen historical figures have started to appear. In addition, all but one of the new currency banknotes scheduled to introduced in 2009 will carry pictures of historical and cultural figures (the largest bill has Niyazov on it).

FIRST STAGES OF POLITICAL REFORM

¶14. (SBU) Berdimuhamedov has replaced some of the ministers he inherited from Niyazov. His focus seems to be on finding better-qualified individuals. On August 24, he established a "Human Rights Commission" to help bring the practices and policies of Turkmenistan's government agencies into line with international standards and human rights conventions. He has established a state commission to review complaints of citizens against law enforcement agencies, which has become a vehicle for pardoning at least some of those imprisoned) including for complicity in the 2002 attack on the presidential motorcade) under Niyazov. Berdimuhamedov pardoned 11 prisoners, including the former Grand Mufti of Turkmenistan, Nasrullah ibn Ibadullah, in early August, and promised he would pardon more in the future. Several other prisoners of concern were freed in the October amnesty. Berdimuhamedov has also agreed to allow UNDP to provide human rights training to police.

¶15. (SBU) In addition, he has slowly begun to walk back some of the most restrictive controls on movement within the country, first removing police checkpoints on the roads between cities, then -- on July 13 -- eliminating the requirement for Turkmenistan's citizens to obtain permits to

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travel to border zones (however, the permit system remains in force for foreigners). Although the president has been slower to strengthen the rule of law, correct Turkmenistan's previous human rights and religious freedom record, and promote economic reform, he has told U.S. officials he wants to "turn the page" on the bilateral relationship and is willing to work on areas that hindered improved relations under Niyazov. He has approved an unprecedented number of visits by U.S. delegations since he took office, including those directed toward promoting change.

ECONOMY AND FINANCE

¶16. (SBU) Turkmenistan's economy is closely controlled by the state and is heavily dependent on hydrocarbon revenue. Although the government for many years regularly proclaimed its wish to attract foreign investment, it made little effort up to now to change the state-control mechanisms, restrictive currency-exchange system and dual currency exchange rates that created a difficult foreign investment climate. However, in recent months, we have seen greater willingness among upper-level personnel at Turkmenistan's main economic and financial institutions -- including both the Ministry of Economy and Finance and the Central Bank -- to acknowledge that reforms are necessary. Part of this new attitude is linked to the president's growing frustration, expressed publicly during several cabinet-level meetings in August, with Turkmenistan's complex, opaque web of on- and off-budget funds, which have made a thorough accounting of state income and disbursements/expenses virtually impossible. And, in fact, President Berdimuhamedov's frustration with the lack of accountability in the budget was one of the key factors that led, in late July, to the creation of a Supreme Auditing Chamber. That said, growing interest in investing in investing in Turkmenistan among western businessmen in hopes that the new government eventually will make the changes necessary to improve the investment climate is also providing an incentive for change.

FOREIGN POLICY: A NEW FOCUS ON ENGAGEMENT

¶17. (SBU) Notwithstanding his statements that he plans to continue the "neutrality" policies of his predecessor, Berdimuhamedov -- probably on the advice of Deputy Chairman of the Cabinet of Ministers and Foreign Minister Rashit Meredov -- has put a virtually unprecedented emphasis on foreign affairs. Indeed, Berdimuhamedov has met or spoken by telephone with all the leaders in the region -- including with President Aliyev of Azerbaijan, with whom Niyazov had maintained a running feud. He has exchanged visits with

Russia's President Putin, and held a high-profile gas summit with Putin and Kazakhstan's President Nazarbayev in Turkmenistan's Caspian seaside city of Turkmenbashi (Krasnovodsk). China has a strong and growing commercial presence in Turkmenistan, and continues to court Berdimuhamedov through a series of high-level commercial and political visits. In mid-July, Berdimuhamedov made a state visit to China, focused mainly on natural gas and pipeline deals. While Turkey has given Berdimuhamedov top-level treatment, including an invitation to Ankara, its relationship with Turkmenistan continues to be colored more by the image of its lucrative trade and construction contracts that are siphoning hundreds of millions of dollars away from state budgets here than by generous development assistance or fraternal support. He has also held positive meetings with high-level U.S. State Department officials and leaders of the Organization for Security and Cooperation in Europe (OSCE) and United Nations to discuss areas of potential assistance. He met with UN High Commissioner on Human Rights Louise Arbour in May, the Head of the OSCE's Office for Democratic Institutions and Human Rights (ODIHR),

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Christian Strohal, and agreed to a visit by the UN's Special Rapporteur on Religious Freedom at an as-yet undetermined date. He most recently made his first trip to the United States as president to participate in the UNGA session in September. November 5-7 was his first visit to EU and NATO headquarters in Brussels.

U.S. POLICY

¶18. (SBU) U.S. policy in Turkmenistan is three-fold:

- Encourage democratic reform and increased respect for human rights and fundamental freedoms, including support for improvements in the education and health systems;
- Encourage economic reform and growth of a market economy and private-sector agriculture, as well as diversification of Turkmenistan's energy export options; and
- Promote security cooperation.

¶19. (SBU) In raising human rights concerns, the United States:

- Encourages further relaxation of Niyazov-era abuses and restrictions on freedom of movement;
 - Promotes greater religious freedom, including registration of unrecognized groups like the Roman Catholic Church, and making legal provision for conscientious objectors; and
 - Advocates the growth of civil society by urging the government to register non-governmental organizations.
- HOAGLAND